



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MINUTES OF A MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM OPERATIONS COMMITTEE

HELD ON
Thursday, May 26, 2011
10:30 a.m., Arizona Time

The Operations Committee (OC) of the Arizona State Retirement System (ASRS) met in public session in the 14th Floor Conference Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. Steven Zeman, Chair, called the meeting to order at 10:30 a.m.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Steven Zeman, Chair
Mr. Tom Manos, Vice-Chair
Mr. David Byers
Mr. Kevin McCarthy

Absent: None

A quorum of the Committee was present for the purpose of conducting business.

2. Approval of the May 6, 2011 Public and Executive Session Minutes of the OC Meeting

Motion: Mr. David Byers moved the regular and executive session minutes of the May 6, 2011 OC meeting be accepted. Mr. Tom Manos seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

3. Presentation, Discussion and Appropriate Action Regarding ASRS Information Technology Strategic Initiatives Including Legislative Impacts

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, addressed the Committee regarding the current status of the ASRS Information Technology strategic initiatives. He gave a brief introduction to the topic and then introduced Ms. Lisa King, Analyst, Strategic Planning and Analysis, who discussed the tasks associated with the recent legislation regarding the ASRS contribution split. Mr. Kent Smith, Assistant Director, Technology Services Division (TSD), then briefed the Committee on the status of various initiatives that were put on hold due to recent legislation. Ms. Valerie Burkett, Program Manager, TSD, gave a progress report of the three-year Strategic Initiatives Plan for November 1, 2010 to April 30, 2011. Mr. Dave King, Assistant Director, Member Services Division (MSD), addressed the Committee regarding the business impacts the legislation and changes to various initiatives would have on the agency.

4. Presentation, Discussion and Appropriate Action Regarding the ASRS Risk Assessment Closeout for Fiscal Years 2010 and 2011

Mr. Guarino presented the Committee a brief overview of the ASRS Risk Assessment Closeout for Fiscal Years 2010 and 2011 including its background and the areas of risk reviewed by the agency. He introduced Ms. Lisa King who gave a review of the highlights of the risk mitigation strategies including risks associated with financial loss and/or fraud, risk associated with rising health insurance costs, risk associated with legislation and the long-term system viability of plan benefits, risk associated with the loss of a positive public image, and risk associated with delays in implementing new online web services.

5. Presentation, Discussion and Appropriate Action Regarding an ASRS Security Steering Committee Update

Mr. Guarino introduced Ms. Nancy Bennett, Chief Financial Officer, and Mr. Patrick O'Keefe, Network Information Systems Manager, Technology Services Division, who addressed the Committee regarding the ASRS Security Steering Committee (SSC). Ms. Bennett discussed the history of the SSC, its mission, and the status of various aspects of security within the agency. Mr. O'Keefe discussed the status of TSD's resolution to the findings from the ASRS' second system security assessment.

6. Presentation, Discussion and Appropriate Action Regarding an Update of the ASRS Security Audit

Motion: Mr. David Byers moved to adjourn the Committee and reconvene in Executive Session to discuss the update of the ASRS Security Audit. Mr. Tom Manos seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

The Committee adjourned to Executive Session at 12:20 p.m.

The Committee reconvened to Regular Session at 12:26 p.m.

7. Review of Recently Conducted Audits

- **Cottonwood-Oak Creek School District**
- **Creighton School District**
- **Murphy Elementary School District**
- **Willcox Unified School District**

Mr. Bernard Glick, ASRS Chief Internal Auditor, presented the Committee with an audit of the Cottonwood-Oak Creek School District. The audit found the District did not remit contributions for nine employees who were engaged to work at least 20 hours per week for at least 20 week in one or more fiscal years, and the District did not request a refund for one ineligible member who remitted contributions for the fiscal year. Mr. Glick said the total owed the ASRS is \$17,507.

The next audit involved the Creighton School District. Mr. Glick said the audit had five findings: 1) the District did not report ASRS contributions for 53 employees who receive an annual

mileage allowance, 2) the District did not remit contributions for seven employees on salary classified as "miscellaneous pay" or "professional days-certified," 3) the District did not remit contributions for four employees who were engaged to work at least 20 hours per week for at least 20 weeks in one or more fiscal years, 4) the District applied and remitted contributions for one ineligible member, and 5) the District applied and remitted contributions on five employees' lump-sum payments for accumulated leave upon termination of employment. Mr. Glick said the total owed the ASRS is approximately \$84,362.

The third audit concerned the Murphy Elementary School District. Mr. Glick stated there were four findings from the audit. First, the District did not remit ASRS contributions for 81 terminated employees who received performance pay earned in a period of eligibility but paid after termination. Second, the District did not remit contributions for six employees who were engaged to work at least 20 hours per week for at least 20 weeks in one or more fiscal years. Next, the District did not remit contributions on all eligible compensation for eight employees. The District also had not ensured that all retirees returning to work complied with the requirement that they acknowledge statutory provisions regarding return to work in writing within 30 days of returning to work. Lastly, the District did not comply with all statutes regarding ASRS health insurance supplements. The amount due the ASRS is approximately \$23,827.

The final audit involved the Willcox Unified School District. Mr. Glick said the audit produced five findings: 1) the District did not remit contributions for three retirees who had worked 20 or more hours for 20 or more weeks in several fiscal years before reaching normal retirement, 2) the District did not remit contributions for six employees who were engaged to work at least 20 hours per week for at least 20 weeks in one or more fiscal years, 3) the District did not remit contributions on all eligible compensation for eight employees, 4) the District did not ensure that all retirees returning to work complied with the requirement that they acknowledge statutory provisions regarding return to work in writing within 30 days of returning to work, and 5) the District did not request a refund for one ineligible member who remitted contributions for part of a fiscal year. Mr. Glick said the amount owed the ASRS was approximately \$32,166.

8. Presentation, Discussion and Appropriate Action Regarding the Internal Audit Quarterly Update

Mr. Glick presented a spreadsheet containing the summary of internal audits through the period ending March 2011. The spreadsheet listed the audits, the hours budgeted, and estimates of the hours used to perform the audits. Mr. Glick noted various audits and reporting that had occurred in the third quarter of the fiscal year.

9. Request for Future Agenda Items

There were no requests by the Committee.

10. Call to the Public

No members of the public addressed the Committee.

11. Adjournment of the OC

Mr. Steven Zeman adjourned the meeting at 12:34 p.m.

Respectfully Submitted by,

Zachary Kucera
Committee Secretary

Date

Anthony Guarino Date
Deputy Director and Chief Operations Officer